

COMMUNITY SOLUTIONS, INC.

Report of Independent Public Accountants

Financial Statements

Report in Accordance with *Government Auditing Standards*

Report on State Financial Assistance in with
Florida State Single Audit Act

June 30, 2012

COMMUNITY SOLUTIONS, INC.

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June 30, 2012 and 2011

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I. Financial Statements

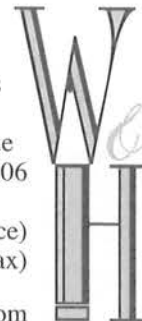
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Report of Independent Public Accountants

To the Board of Directors
Community Solutions, Inc.

We have audited the accompanying consolidated statements of financial position of Community Solutions, Inc. as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of Community Solutions, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Solutions, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our accompanying report dated October 24, 2012 on our consideration of Community Solutions, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of Community Solutions, Inc. taken as a whole. The supplementary schedules shown on pages 15 – 16 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

October 24, 2012

Whittlesey & Hadley

COMMUNITY SOLUTIONS, INC.

Consolidated Statements of Financial Position

June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,700,106	\$ 4,083,231
Grants and accounts receivable, net of allowance of \$25,099 and \$82,013, respectively	2,105,943	2,236,128
Prepaid expenses	261,698	174,913
Investments	8,823,268	8,254,766
Total current assets	14,891,015	14,749,038
Property and equipment, net	2,063,523	1,494,939
Security deposits	135,898	139,162
Totals	\$ 17,090,436	\$ 16,383,139
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,930,136	\$ 1,587,605
Deferred revenue	979,629	784,324
Deferred gain on sale-leaseback, current portion	226,286	226,286
Long-term debt, current portion	60,803	119,951
Deferred bonding revenue, current portion	16,154	16,759
Total current liabilities	3,213,008	2,734,925
Long-term liabilities:		
Deferred gain on sale-leaseback, less current portion	2,036,579	2,262,865
Long-term debt, less current portion	299,376	360,176
Deferred bonding revenue, less current portion	30,226	46,379
Total long-term liabilities	2,366,181	2,669,420
Total liabilities	5,579,189	5,404,345
Net assets:		
Unrestricted	11,383,427	10,951,542
Temporarily restricted	127,820	27,252
Total net assets	11,511,247	10,978,794
Total liabilities and net assets	\$ 17,090,436	\$ 16,383,139

The accompanying notes are an integral part of the financial statements.

COMMUNITY SOLUTIONS, INC.

Consolidated Statements of Activities

Years Ended June 30, 2012 and 2011

	2012	2011
Changes in unrestricted net assets:		
Program support and revenue:		
Fees and grants from governmental agencies	\$ 26,420,253	\$ 28,044,475
Third party reimbursements	1,368,256	1,965,136
Resident subsistence	296,186	301,376
Other program revenue	321,116	274,950
School lunch revenue	17,447	17,579
Miscellaneous revenue	5,560	4,512
	28,428,818	30,608,028
Net assets released from restrictions:		
Satisfaction of program and time restrictions	11,666	21,403
Total program support and revenue	28,440,484	30,629,431
Program expenses:		
Direct program expenses	24,101,354	26,396,418
Administrative and general expenses	4,036,275	4,149,325
Total expenses	28,137,629	30,545,743
Increase in unrestricted net assets before other revenue (expenses)	302,855	83,688
Other revenue (expenses):		
Interest income	20,299	75,868
Public support	58,324	44,842
Investment income, net	33,487	1,258,591
Deferred bonding income	16,759	19,602
Gain on disposal of property and equipment	161	42,306
Total other revenue (expenses)	129,030	1,441,209
Changes in unrestricted net assets	431,885	1,524,897
Changes in temporarily restricted net assets:		
Contributions	112,234	24,047
Net assets released from restrictions - satisfaction of program and time restrictions	(11,666)	(21,403)
Changes in temporarily restricted net assets	100,568	2,644
Net change in net assets	532,453	1,527,541
Net assets, beginning of year	10,978,794	9,451,253
Net assets, end of year	\$ 11,511,247	\$ 10,978,794

The accompanying notes are an integral part of the financial statements.

COMMUNITY SOLUTIONS, INC.

Consolidated Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Net change in net assets	\$ 532,453	\$ 1,527,541
Adjustments to reconcile net change in net assets to net change in cash and cash equivalents from operating activities:		
Depreciation and amortization	292,494	220,266
Gain on disposal of property and equipment	(161)	(42,306)
Deferred bonding revenue	(16,758)	(19,602)
Amortization of deferred gain on sale-leaseback	(226,286)	(226,286)
Unrealized (gain)/loss on investments	270,681	(972,372)
Realized (gain)/loss on investments	(144,107)	(135,478)
Changes in operating assets and liabilities:		
Grants and accounts receivable	130,185	(4,659)
Prepaid expenses	(86,785)	182,786
Security deposits	3,264	(7,757)
Accounts payable and accrued expenses	342,531	40,354
Grants payable	195,305	130,770
Net change from operating activities	1,292,816	693,257
Cash flows from investing activities:		
Capital expenditures	(861,574)	(691,732)
Proceeds from insurance for fixed asset disposal	657	-
Purchases of investments	(4,027,647)	(3,078,403)
Proceeds from sale of investments	3,332,571	2,872,979
Proceeds from notes receivable	-	722,306
Net change from investing activities	(1,555,993)	(174,850)
Cash flows from financing activities:		
Proceeds from long-term debt	-	282,000
Payments on long-term debt	(119,948)	(106,517)
Net change from financing activities	(119,948)	175,483
Net change in cash and cash equivalents	(383,125)	693,890
Cash and cash equivalents, beginning of year	4,083,231	3,389,341
Cash and cash equivalents, end of year	\$ 3,700,106	\$ 4,083,231
Supplemental disclosures of cash flow information:		
Interest paid	\$ 20,733	\$ 17,675
Income taxes paid	\$ -	\$ 4,600
Noncash investing and financing activities:		
Leasehold improvements financed through debt	\$ -	\$ 282,000

The accompanying notes are an integral part of the financial statements.

COMMUNITY SOLUTIONS, INC.

Notes to the Consolidated Financial Statements

Years Ended June 30, 2012 and 2011

NOTE 1 - BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organizations' activities

The consolidated financial statements include the accounts of Community Solutions, Inc. ("CSI") and its subsidiary, Collins Group, Inc. (collectively referred to as the "Organizations"). All significant intercompany transactions have been eliminated in consolidation.

CSI is a private, not-for-profit, community-based provider that has provided comprehensive services to criminal justice, juvenile justice and child welfare clients in several states including Rhode Island, New Jersey, Pennsylvania, Georgia, Louisiana, Florida, Maryland, California, and Texas. In addition, CSI operates federally funded programs in Connecticut.

Collins Group, Inc. is a private, not-for-profit organization that owns and operates commercial real estate and equipment for CSI, and certain mission-related third party organizations.

Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Organizations are subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Organizations or that expire by the passage of time.

Permanently Restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Organizations and stipulate the use of income and/or appreciation as temporarily restricted based on donor imposed stipulations or by operation of law. The Organizations have no permanently restricted net assets.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 - BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax exempt status

The Internal Revenue Service ("IRS") has ruled that the Organizations are exempt from federal income taxes as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

In the preparation of the Organizations' Form 990s and 990-T, tax positions are taken based on interpretation of federal and state income tax laws for which the outcome is uncertain. Management periodically reviews and evaluates the status of uncertain tax positions. Changes may result from closing of statute of limitations on tax returns, new legislation, and clarification of existing legislation through government pronouncements, the courts and through the examination process. The Organizations' policy is to report interest and penalties, if any, in unrelated business income tax expense in the statement of activities. No interest or penalties have been accrued or charged to expense as of June 30, 2012 and 2011 or for the years then ended. As of June 30, 2012, the tax years subject to examination are 2009 through 2011.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid short-term instruments with an original maturity of three months or less when acquired.

Restricted funds

Certain amounts of cash, cash equivalents and investments are pledged as collateral for real estate operating leases with one third party lessor as follows:

<u>Period</u>	<u>Amount Pledged</u>
July 2007 - June 2012	\$ 3,000,000
July 2012 - June 2017	2,000,000

Investments

The Organizations report investments at their current fair values and reflect any gains or losses in the Consolidated Statements of Activities. Gains and losses are considered unrestricted unless restricted by donor stipulation or law. Nonmonetary investments received as gifts are immediately sold and recorded at the realized value.

Grants and accounts receivable

Receivables arising from per diem contracts and cost reimbursement grants made by various funding agencies and third party payers are stated net of an allowance for doubtful accounts. Allowances for receivables are determined by management based on an assessment of their collectability. Management considers past history, current economic conditions and overall viability of the third party when determining the need for an allowance. Receivables are written off only when management believes amounts will not be collected. Receivables are considered past due based on the invoice date.

Property and equipment

Capital assets purchased with funds received from some state contracts are expensed in the year acquired and are charged to the program benefited. Title to the equipment remains with the funding agency and the property reverts to that agency at the termination of the program. An annual schedule of equipment purchased is provided to the agencies.

NOTE 1 - BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Organizations capitalize all expenditures for property and equipment in excess of \$1,000 and having a useful life of greater than three years. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation of property and equipment is charged against income over the estimated useful lives of the assets, using the straight-line method. Leasehold improvements are amortized over the shorter of the useful life or the lease term. Estimated lives for financial reporting purposes are as follows:

Asset	Estimated Lives
Buildings and renovations	7 - 40 years
Leasehold improvements and land improvements	7 - 40 years
Equipment and furnishings	3 - 10 years
Vehicles	5 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected in the Consolidated Statements of Activities.

Revenue recognition

Fees and grants from governmental agencies - The Organizations recognize grants to the extent that eligible grant costs are incurred. Per diem contract revenue is recognized when a unit of service is provided. Deferred revenue represents grant advances and other revenue which exceed eligible costs incurred. With certain fee for service contracts, the Organizations are allowed to retain a portion of unspent funds received.

Expenditures charged to contracts are subject to audit by various federal and state agencies. The expenditures reported for the years ended June 30, 2012 and 2011 have not been audited by the respective funding agencies.

Third party reimbursements - The revenue related to third party reimbursements is recognized in the period in which the reimbursable costs are incurred.

Resident subsistence - Certain residents of the Organizations are required to remit 25% to 35% of their earnings to the Organizations as subsistence. For some of the Department of Correction's residents, 3% of the subsistence collected is devoted to the victim's compensation fund.

Other program revenue - Other program revenue is recognized as revenue in the period in which the related services are provided.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions.

NOTE 1 - BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bonding revenue - The Organizations have received bond funds over the years for various renovations. The provider of the bond funds places a ten-year lien on the property when the projects are complete. If the property is not utilized by the Organizations, the bond funds will have to be repaid. The repayment is made in an amount equal to the amount of the bond less 10% for each full year of the ten year period that the location was utilized. The unamortized balance is recorded as deferred bonding revenue.

Deferred gain on sale-leaseback - The gain from the sale-leaseback transaction is being amortized over the term of the lease, which is 15 years, and is offset against rental and lease payments in the consolidated direct program expenses. The unamortized balance is recorded in the Consolidated Statements of Financial Position as deferred gain on sale-leaseback.

Reclassifications

Certain reclassifications have been made to the June 30, 2011 financial statement presentation to correspond to the current year's format. Total net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent events

The Organizations have evaluated events and transactions for potential recognition or disclosure through October 24, 2012, which is the date the consolidated financial statements were available to be issued.

NOTE 2 - CONCENTRATIONS

Concentration of credit risk

Financial instruments which potentially subject the Organizations to concentrations of credit risk consist primarily of cash, cash equivalents, investments and receivables. The Organizations maintain their cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

The Organizations invest in various investment securities. Accordingly, the value of the investment securities can fluctuate due to interest rates, reinvestment, credit and other risks depending on the nature of the specific investment. Therefore, it is at least reasonably possible that these factors will result in changes in the value of the Organizations' investments which could materially affect amounts reported in the consolidated financial statements.

Concentrations of credit risk with respect to grants and accounts receivable are limited to contractual agreements with various Federal and state agencies.

Funding source concentrations

The following agencies provided over 10% of the Organizations' total support and revenue for the years ended June 30, 2012 and 2011:

<u>Granting Agency</u>	<u>2012</u>	<u>2011</u>
Connecticut Court Support Services Division	\$ 7,039,776	\$ 8,992,248
Connecticut Department of Corrections	5,949,435	5,792,385
	<u>\$ 12,989,211</u>	<u>\$ 14,784,633</u>

NOTE 3 - INVESTMENTS

The following summarizes the Organizations' investments at June 30:

	2012		
	Cost	Fair Value	Unrealized Gain (Loss)
Short term investments	\$ 851,261	\$ 851,299	\$ 38
Mutual funds	7,787,372	7,971,969	184,597
Totals	<u>\$ 8,638,633</u>	<u>\$ 8,823,268</u>	<u>\$ 184,635</u>

	2011		
	Cost	Fair Value	Unrealized Gain (Loss)
Short term investments	\$ 677,837	\$ 679,769	\$ 1,932
Mutual funds	7,121,613	7,574,997	453,384
Totals	<u>\$ 7,799,450</u>	<u>\$ 8,254,766</u>	<u>\$ 455,316</u>

Included in mutual funds are the assets related to the Organizations' 457(b) deferred compensation plan in the amount of \$129,679 and \$77,711 as of June 30, 2012 and 2011, respectively.

Investment income was comprised of the following for the years ended June 30:

	2012	2011
Dividends and interest	\$ 195,069	\$ 182,800
Realized gain/(loss)	144,107	135,478
Unrealized gain	(270,681)	972,372
Total gain	68,495	1,290,650
Investment expenses	(35,008)	(32,059)
Investment income, net	<u>\$ 33,487</u>	<u>\$ 1,258,591</u>

It is the intent of the Board of Directors to not use these investments for current operations.

NOTE 4 - FAIR VALUE MEASUREMENTS

Financial assets and liabilities are valued based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels is described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Organizations utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in their assessment of fair value.

Financial assets and liabilities carried at fair value at are classified as follows as of June 30 2012 and 2011:

	2012			Total
	Level 1	Level 2	Level 3	
Cash equivalents	\$ 851,299	\$ -	\$ -	\$ 851,299
Mutual funds	7,971,969	-	-	7,971,969
Total	\$ 8,823,268	\$ -	\$ -	\$ 8,823,268
Liabilities under deferred annuity payable	\$ -	\$ 129,679	\$ -	\$ 129,679
	2011			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 679,769	\$ -	\$ -	\$ 679,769
Mutual funds	7,574,997	-	-	7,574,997
Total	\$ 8,254,766	\$ -	\$ -	\$ 8,254,766
Liabilities under deferred annuity payable	\$ -	\$ 85,961	\$ -	\$ 85,961

Due to its short-term nature, the cost basis of cash equivalents approximates its fair value and therefore is measured at level 1.

Investments in mutual funds consisting of equities and exchange-traded funds are listed on a national securities exchange or reported on the NASDAQ national market and are valued at level 1 at their last sales price on the valuation date.

The deferred annuity payable is valued based on the value of the corresponding asset (Level 2).

NOTE 5 - FIXED ASSETS

Schedule of fixed assets for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Property and equipment, at cost:		
Buildings and renovations	\$ 798,907	\$ 798,907
Leasehold improvements	889,461	849,259
Equipment and furnishings	734,590	528,474
Vehicles	46,373	46,373
Land improvements	40,648	40,648
Construction in progress	764,624	196,234
	<u>3,274,603</u>	<u>2,459,895</u>
Less accumulated depreciation and amortization	<u>(1,502,850)</u>	<u>(1,256,029)</u>
	1,771,753	1,203,866
Land	291,770	291,073
Property and equipment, net	<u>\$ 2,063,523</u>	<u>\$ 1,494,939</u>

NOTE 6 - LONG-TERM DEBT

A summary of long-term debt is as follows:

	<u>2012</u>	<u>2011</u>
Adjustable term note payable to a bank due in monthly principal and interest installments of \$8,034, due in February 2012. The rate is subject to change based on the Federal Home Loan Bank of Boston Index. The interest rate at June 30, 2012 was 7.50%. The note is secured by the Organizations' assets.	\$ -	\$ 62,508
Adjustable rate mortgage note payable to a bank in monthly principal and interest installments of \$953 effective July 1, 2010, due in June 2028. The adjustable interest rates are 3.3125% effective July 1, 2011 and 3.00% effective July 1, 2012. The note is secured by a first mortgage interest on property located in Johnston, Rhode Island.	141,130	147,827
Fixed rate mortgage payable to a bank due in monthly principal and interest installments of \$5,431. Interest is fixed at 5.75%. All outstanding principal and interest are due in full in May 2016. The note is secured by the Organization's assets.	<u>219,049</u>	<u>269,792</u>
	360,179	480,127
Less current portion	<u>(60,803)</u>	<u>(119,951)</u>
	<u>\$ 299,376</u>	<u>\$ 360,176</u>

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The aggregate of future minimum principal payments are as follows:

<u>For the years ending June 30:</u>	
2013	\$ 60,803
2014	64,137
2015	67,893
2016	55,430
2017	7,867
Thereafter	104,049
	<u>\$ 360,179</u>

NOTE 7 - DEFERRED BONDING REVENUE

The Organizations have received funding through various contracts with the State of Connecticut which provided funding for facilities and improvements. These contracts place liens on certain real property for a ten-year period and expire at various dates through 2018. The liens are reduced by 10% per year, provided the properties are used as private, not-for-profit community facilities. The liens are as follows as of June 30:

	<u>2012</u>	<u>2011</u>
Safe Home, South Windsor, CT	\$ 28,420	\$ 35,589
Kellogg House, Vernon, CT	17,960	26,944
Carriage House, Hartford, CT	-	605
	<u>46,380</u>	<u>63,138</u>
Current portion	(16,154)	(16,759)
Long-term portion	<u>\$ 30,226</u>	<u>\$ 46,379</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are made up of contributions restricted by donors for funding the following programs as of June 30:

	<u>2012</u>	<u>2011</u>
Baltimore, Maryland MTFC	\$ 106,913	\$ 9,400
Golf tournament for 2013 and 2012, respectively	11,750	4,950
Donations to Hartford House	6,183	5,866
Holiday donations	1,338	1,338
Coventry donations	1,080	1,080
Donations to California programs	538	4,136
Donations to Stein House	18	-
Donations to CSSD Women and Children program	-	482
	<u>\$ 127,820</u>	<u>\$ 27,252</u>

NOTE 9 - LINE OF CREDIT

CSI has an agreement with Berkshire Bank for a revolving line of credit which provides borrowings up to a maximum of \$1,500,000 through February 27, 2013, with annual renewals. Borrowings under the line bear interest at the prime rate (3.25% at June 30, 2012) and are collateralized by all real and personal property of CSI. There were no outstanding balances on the line of credit at June 30, 2012 and 2011.

Collins Group, Inc. has an agreement dated May 10, 2012 with Berkshire Bank for a revolving line of credit which provides borrowings up to a maximum of \$900,000 through November 10, 2017, with annual renewals. Borrowings under the line bear interest at 4.75% and are collateralized by the real and personal property of Collins Group, Inc. There were no outstanding balances on the line of credit at June 30, 2012.

NOTE 10 - OPERATING LEASE AGREEMENTS

The Organizations lease facilities in the states of Connecticut, New Jersey, Pennsylvania, Maryland, Georgia, Florida, Louisiana and California. These facilities are primarily used for programs. In addition, the Organizations lease a facility in Connecticut for administration.

Rent expense for the years ended June 30, 2012 and 2011 was \$2,068,357 and \$2,218,906, respectively. Leases expire at various times through June 2022.

The Organizations lease certain equipment and motor vehicles and are generally responsible for their maintenance and insurance. The leases expire at various dates through May 2015. Total lease expense was \$138,630 and \$160,602 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments due under operating leases in each of the years subsequent to June 30, 2012 are as follows:

<u>Year Ending June 30,</u>	<u>Real estate</u>	<u>Vehicles</u>	<u>Total</u>
2013	\$ 1,400,463	\$ 76,397	\$ 1,476,860
2014	1,120,496	55,197	1,175,693
2015	1,046,781	41,534	1,088,315
2016	773,800	20,153	793,953
2017	765,000	-	765,000
Thereafter	4,611,792	-	4,611,792
	<u>\$ 9,718,332</u>	<u>\$ 193,281</u>	<u>\$ 9,911,613</u>

NOTE 11 - RETIREMENT PLANS

CSI maintains a 401(k) profit-sharing plan and a tax sheltered annuity plan covering all employees of CSI and its subsidiary, CSI Connecticut, Inc. who satisfy the eligibility requirements. An employee is immediately eligible for participation in the plan. CSI matches 100% of participant 401(k) contributions up to 4% of compensation. Employer contributions are fully vested after five years of service.

CSI maintains a nonqualified deferred compensation plan for eligible employees. Benefit payments to a participant or beneficiary are made according to the manner and method of payment, as elected in a participation agreement provided within the plan. Investments in the amount of \$112,679 and \$85,961 as of June 30, 2012 and 2011, respectively have been segregated as an asset of CSI, which represents the total amount of deferred annuity payable.

The Organizations' total retirement expense for the years ended June 30, 2012 and 2011 was \$171,034 and \$315,146, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Organizations have a construction contract for a building in Delaware. The estimated cost to complete is approximately \$755,000 as of June 30, 2012. This amount is not reflected in the consolidated financial statements.

The Organizations are the defendants in proceedings involving various employee matters. The proceedings may result in judgments being assessed against the Organizations which may impact their assets in the future, however all judgments are expected to be covered by insurance policies. In these cases, the Organizations intend to contest the proceedings vigorously and cannot predict the outcome of the potential lawsuit or estimate the amount of loss that may result. The Organizations do not believe the proceedings are material to its consolidated results of operations or financial condition and, accordingly, no provision for any liability that may result has been made at June 30, 2012.

Management has recorded a liability against the possibility of return of funds due to audits of prior years in the amount of \$554,075 which is included in deferred revenue in the consolidated statements of financial position for the years ended June 30, 2012 and 2011, respectively.

Supplementary Information

COMMUNITY SOLUTIONS, INC.

Consolidated Direct Program Expenses

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries and wages	\$ 13,112,495	\$ 14,789,173
Employee benefits	3,184,394	3,597,600
Rental and lease payments	1,807,582	1,977,806
Contract services	1,074,066	1,055,094
Training and in-service	859,760	813,845
Food	835,616	855,507
Mileage reimbursement	473,337	583,224
Utilities	460,689	551,683
Housekeeping	389,117	269,937
Property insurance	284,539	287,401
Depreciation and amortization	270,212	196,808
Telephone	254,528	279,516
Other	170,175	97,475
Maintenance supplies and expense	184,537	219,084
Minor equipment	169,305	208,453
Office supplies and expense	160,473	166,210
Lab fees	123,677	157,618
Vehicle expenses	83,762	83,630
Vehicle insurance	43,854	52,875
Dietary nonfood	40,753	41,974
Inmate recreational services	40,488	38,099
Inmate training and education	24,132	28,538
Interest expense	20,733	17,675
Property and real estate taxes	19,248	17,293
Recruitment advertising	13,882	9,900
Total direct program expenses	<u>\$ 24,101,354</u>	<u>\$ 26,396,418</u>

See Report of Independent Public Accountants.

COMMUNITY SOLUTIONS, INC.

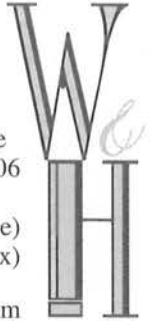
Consolidated Administrative and General Expenses

Years Ended June 30, 2012 and 2011

	2012	2011
Salaries and wages	\$ 2,579,775	\$ 2,618,765
Employee benefits	466,241	491,372
Contract services	339,522	238,034
Rental and lease payments	175,894	175,417
Staff training and in-service	163,778	219,671
Office supplies and expense	66,005	78,421
Other	65,054	79,082
Telephone	54,438	53,854
Utilities	30,554	31,456
Mileage reimbursement	24,843	23,127
Depreciation	22,282	23,455
Temporary help	18,391	28,511
Dues, licenses and fees	15,423	33,284
Property insurance	9,191	3,383
Program advertising	2,743	22,265
Minor equipment	36	1,373
Recruitment advertising	909	2,952
Food	676	1,802
Maintenance supplies and expense	520	4,582
Development costs	-	18,519
Total administrative and general expenses	<u>\$ 4,036,275</u>	<u>\$ 4,149,325</u>

See Report of Independent Public Accountants.

II. Report in Accordance with *Government Auditing Standards*



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON www.whcpa.com
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Community Solutions, Inc.

We have audited the financial statements of Community Solutions, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated October 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Community Solutions, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Community Solutions, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Solutions, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Community Solutions, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

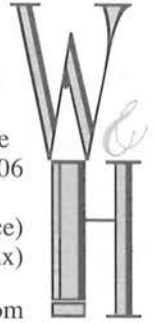
As part of obtaining reasonable assurance about whether Community Solutions, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, the Auditor General's Office, state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Whittlesey & Hadley". The signature is written in a cursive style with a large initial 'W' and 'H'.

October 24, 2012

III. Report in Accordance with State Single Audit Act



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH FLORIDA STATE SINGLE AUDIT ACT AND ON THE
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

To the Board of Directors
Community Solutions, Inc.

Compliance

We have audited Community Solutions, Inc.'s compliance with the types of compliance requirements described in the *Florida State Projects Compliance Supplement* that could have a direct and material effect on each of Community Solutions, Inc.'s major state programs for the year ended June 30, 2012. The major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of Community Solutions, Inc.'s management. Our responsibility is to express an opinion on Community Solutions, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards applicable to financial audits contained in the Florida Single Audit Act. Those standards and the Florida Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Community Solutions, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Community Solutions, Inc.'s compliance with those requirements.

In our opinion, Community Solutions, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of Community Solutions, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered Community Solutions, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine our auditing procedures for the purpose of expressing our opinion on

compliance and to test and report on internal control over compliance in accordance with the Florida Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Solutions, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of State Financial Assistance

We have audited the basic consolidated financial statements of Community Solutions, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated October 24, 2012. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the Florida Single Audit Act and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of State Financial Assistance is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Directors, the Auditor General's Office, state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Whittlesey & Hadley". The signature is written in dark ink and is positioned in the lower right area of the page.

October 24, 2012

COMMUNITY SOLUTIONS, INC.

Schedule of State Financial Assistance

Year Ended June 30, 2012

State Agency Pass-Through Agency State Project Title	CSFA Number	Awards
Department of Juvenile Justice:		
Passed through Evidence-Based Associates:		
Conditional Release Services	80.018	\$ 423,070
Contracted Intensive Probation	80.019	<u>1,113,997</u>
Total State Financial Assistance		<u><u>\$ 1,537,067</u></u>

See Note to Schedule of State Financial Assistance.

COMMUNITY SOLUTIONS, INC.

Note to Schedule Of State Financial Assistance

Year Ended June 30, 2012

Note 1 - Basis of Presentation:

The accompanying schedule of state financial assistance includes the state grant activity of Community Solutions, Inc. in the State of Florida. The accounting policies of Community Solutions, Inc. conform with accounting principles generally accepted in the United States of America for not-for-profit agencies. The information in this schedule is presented in accordance with the requirements of the Florida Single Audit Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

COMMUNITY SOLUTIONS, INC.

Schedule Of Findings And Questioned Costs

Year Ended June 30, 2012

I. Summary of Auditors' Results:

Financial Statements:

Type of auditors' report issued:			<i>Unqualified</i>
Internal control over financial reporting:			
Material weakness(es) identified?	_____	yes	<u> X </u> no
Significant deficiency(ies) identified?	_____	yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	_____	yes	<u> X </u> no
Management letter issued?	_____	yes	_____ no

State Financial Assistance:

Type of auditors' report issued on compliance for major programs:			<i>Unqualified</i>
Internal control over major programs:			
Material weakness(es) identified?	_____	yes	<u> X </u> no
Significant deficiency(ies) identified?	_____	yes	<u> X </u> none noted
Any audit findings disclosed that are required to be reported in accordance with the Florida Single Audit Act?	_____	yes	<u> X </u> no

Identification of Major Programs:

<u>Name of State Program or Cluster</u>	<u>CSFA Number</u>
Conditional Release Services	80.018
Contracted Intensive Probation	80.019

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee?	<u> X </u>	yes	_____	no
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II. Schedule of findings in accordance with *Government Auditing Standards*:

None.

III. Schedule of findings and questioned costs in accordance with the Florida Single Audit Act:

None.

IV. Schedule of prior audit findings:

No prior audit findings.

V. Management Letter

No management letter issued.